

Property Tax Project in Pakistan

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Project Concept/Design

- Testing the role of wages, incentives and audit on tax inspectors' behavior
- Randomized Control Treatment over 240 tax circles covering most of Punjab involving
 - Pure wage increase
 - Pure wage plus audit
 - Output based incentive
 - Output based incentive plus audit
- Pilot project involving 11 tax circles currently underway, with full project set to be launched next year

Lessons for Researchers and Policymakers

- Broad buy in of all players, though time consuming, is key to ensuring sustainability of the research project
 - Need to build coalitions to support key champions of reform
 - Need to engage with middle and lower tiers for both reasons of domain knowledge, buy in
- There need not be a mismatch in time horizons of researchers and policymakers, so long as there are multiple products, not just the final evaluation. For example apart from the main project evaluation:
 - Tax Inspector Performance Measurement
 - Statistically & Objectively estimate tax personnel performance
 - Data Guided Circle Redrawing
 - Rationalize tax circle boundaries using empirical analysis
 - Capacity Building within E&T Department
 - Data Compilation and Analysis
 - Quality and extent of data will improve
 - Data analysis will improve dramatically as a result
- Need for continuous engagement in communication of research progress

Government Perspective

Context

- Low and Declining Tax to GDP ratio (Fuest & Ridel 2009)
 - ▶ 35% in developed countries
 - ▶ 15% developing countries
 - ▶ 9.5% in Pakistan in 2008 (12.5% in 1996)
- Property tax collection in Pakistan is roughly one-fifth of international average
- Traditional solutions have been, and are being, implemented but have never been rigorously evaluated
 - For instance, salaries of various public sector units have been doubled in recent years – but policymakers perceive this had not any impact on performance
- Increasing recognition within government of the need to find deeper solutions for pressing public problems – hence the need to engage with national and international researchers – unique partnership

Why is Government interested in this project!

- Currently provision or non-provision of bonuses/incentives in government is invariably driven by image and perception of a department and not guided by any scientific study or research
- Organizational reforms need to be brought in as a part of a wider change-management strategy
- Need to change organizational culture from command and control to modern HRM practices based on motivation, career decisions reflecting performance and productivity
- Key challenge for policymakers and researchers – framing such projects so that these do not lead to demotivation of staff who are left out of the project in the short run

Process of Engagement

- What's in it for us (policy makers):
 - International expertise
 - Strategic design engagement
 - Build reform support
 - Generalize lessons to other areas (civil service reform more broadly)
- Why it's worked well:
 - The project has been designed on the basis of close engagement between the tax dept and researchers – already a year and expect it to continue.
 - Multi-tiered engagement:
 - all tiers of tax staff in the tax dept (from constables, clerks and inspectors to senior tiers), and
 - with all stakeholders in other depts (Finance, Planning and Development Dept, Law and Regulation Depts, and with elected policymakers).
 - Chief Minister has approved the design and its financial costs for both the pilot and full project
 - Truly joint venture:
 - Intellectual partnership – researchers with tax dept experts
 - Resource partnership – Researchers fund survey/design costs (20% of project costs) & Govt funds actual incentive pays (80% of project costs)
- Just the beginning Hope this is start of many such interactions!